

research and development

At our core, we are a technology company. In 1999, the industry's greatest foundry of technical innovation achieved breakthroughs ranging from **new world records in magnetic storage densities to the creation of transistors made of organic materials**. These transistors could lead to products like flat-panel computer displays that you can fold and put in your pocket.

For the seventh consecutive year, IBM's technical community led the world in U.S. patent awards, with 2,756 – 900 more than the second-place finisher. Our intellectual property portfolio earns IBM more than \$1 billion in licensing royalties, in addition to securing our technical leadership now and for years to come. In fact, **one-third of the technologies we patented in 1999 are already in the marketplace**.

research and development investments – [\$ in billions

total number of patents



pervasive computing

Pervasive computing is the inevitable extension of the networked world. It describes a mosaic of computing that extends beyond traditional computers and PCs to include an array of small computing devices like handheld computers and intelligent cell phones, as well as lots of everyday things – from household appliances to clothes and machine tools – all containing a little embedded computing and networking capability.

In 1998, pervasive computing was largely a strategic vision. In 1999, that vision became reality. **Last year, IBM signed nearly 250 pervasive computing-related contracts, with more than 100 customers**, for revenue in excess of a quarter of a billion dollars. We are helping **Vodafone AirTouch** – to build and run a global Internet portal that will allow its customers to use a variety of wireless devices to access content and services over the Net. For **Swissair** we are developing an application that

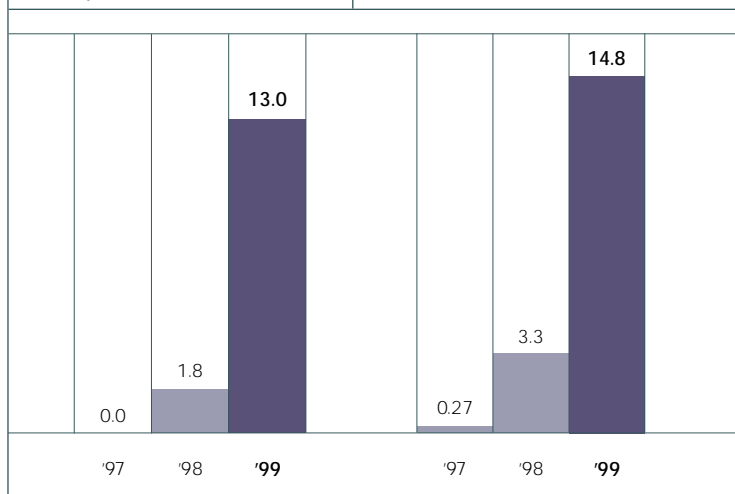
will allow passengers to check in from their mobile phones.

Of these engagements, **more than 60 percent were signed in the last four months** of the year, demonstrating that our customers are now starting to make investments in extending their e-businesses to the universe of new computing devices – like cell phones and palmtop organizers – which already outsell personal computers three to one.

our transformation

Last year, we made important progress toward our goal of transforming IBM into a premier e-business. Sales of products and services over *ibm.com* averaged \$40 million a day for the full year, and \$50 million a day in the fourth quarter.

IBM e-procurement web purchases – \$ in billions | e-commerce revenues – \$ in billions



e-care for customers

QUESTIONS AND PROBLEMS RESOLVED VIA *IBM.COM*

1998: 14 million
1999: 42 million

COST AVOIDANCE

1998: \$ 300 million
1999: \$ 750 million

supply chain management

On-time delivery improved by up to **95 percent**, and the time from order entry to delivery for some products has been reduced to two days.

distributed learning

More than **25 percent** of internal training was delivered via distributed learning to nearly **135,000 employees**, producing cost avoidance and productivity gains of more than \$200 million.

e-care for business partners

Partners generated more than half of all IBM e-commerce revenues. More than **14,000 partners** used *ibm.com* to access product and marketing information.

21st century alliances

To ensure that we will participate in the explosive growth of e-business services – projected to represent nearly 60 percent of the total e-business opportunity by 2003 – we're striking alliances with hundreds of Internet service providers, application service providers, independent software developers and professional services firms such as Web integrators.

More than 850 Web integrators – like USWeb/CKS, Razorfish, US Interactive, Rare Medium and Viant – signed on with us in 1999. Among independent software providers, we established much stronger relationships with SAP, Siebel Systems and i2 Technologies for enterprise resource planning, customer relationship management, and supply chain management solutions.



U.S. President Bill Clinton and IBM Chairman Lou Gerstner
National Education Summit
IBM Executive Education Center
Palisades, New York September 1999

“The time for analysis and evaluation has passed”

With those eight words in his address at the 1999 National Education Summit, IBM Chairman and CEO Lou Gerstner crystallized why there is no going back on the issue of world-class standards as the catalyst for reform in America’s public schools.

The 1999 Summit was the second national conference in three years on the issue of raising academic performance and student achievement in K-12 public education in America. Both were held at IBM’s Executive Conference Center in Palisades, New York, and both were co-chaired by Gerstner.

Driving high-quality public education is just one manifestation of IBM’s long-standing commitment to the communities that sustain our operations and our families. Through a \$40 million grant program called Reinventing Education, we apply advanced information technologies and the expertise of some of our top technologists to improve learning. In recent years, the program has expanded to include schools in seven other countries, including a 1999 grant in the United Kingdom.

While education is our most visible philanthropic endeavor, we’re far from single-minded about our responsibilities as a good corporate citizen. In the U.S. portion of the largest-ever survey on the role of business in society, consumers identified IBM as the company that best exemplifies effective corporate citizenship.

In 1999, IBM dedicated more than \$116 million to programs that assist people in need. Individual IBM employees added another \$25 million through matching grants and donations to nonprofit organizations and educational institutions. And they gave

even more – volunteering more than 4 million hours of their own time to local causes.

We are a company with a commitment to a culture of inclusion, one that draws on the talents of a workforce as broad and diverse as the markets we serve in more than 160 countries worldwide. In 1999, the number of minority executives in the United States increased by 31 percent. Women executives across IBM increased by 27 percent, and in March of this year the company was recognized by highly regarded Catalyst, Inc. for its leadership in advancing the careers of women throughout our workforce.

Hosting the 1999 National Education Summit is completely consistent with the commitment to community leadership. Nobody – at least none of the realists – believes the transition from low standards to high standards will be easy, or that it will be made without painful consequences in the short term, as schools step up and end practices like social promotion.

Yet when the Summit adjourned, governors from across the United States – along with business leaders, educators and representatives of both major teachers’ unions – had done two things: reaffirmed their commitment to high academic standards as the starting point for reform; and committed to execute a specific set of priorities – with deadlines – to move schools toward the goal of dramatically improved student achievement.

“We can’t cut and run when some students can’t meet the standards. We have to redouble our efforts and provide the help they need,” Gerstner said. “We have to have some faith in our children and our teachers. They’ll deliver. It’s up to us to give them the chance.”

company mission

At IBM, we strive to lead in the creation, development and manufacture of the industry's most advanced information technologies, including computer systems, software, networking systems, storage devices and microelectronics.

We translate these advanced technologies into value for our customers through our professional solutions and services businesses worldwide.

